

City of Victorville  
Council Policy

<b>SUBJECT:</b>	<b>POLICY NUMBER: CP-18-06</b>
Debt Management Policy	June 5, 2018

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# City of Victorville

## Debt Management Policy

### I. Introduction

The purpose of the City of Victorville (the "City") Debt Management Policy (the "Policy") is to promote sound and uniform practices for issuing and managing bonds and other forms of indebtedness, to provide guidance to decision makers regarding the appropriate use of debt and other repayment obligations, and to ensure compliance with California Government Code Section 8855(i), effective on January 1, 2017, and other legislation, statutes, and laws that place regulations on local agency debt. This Debt Management Policy will also apply to any debt issued by the Victorville Successor Agency, formerly Victorville Redevelopment Agency, and also the Southern California Logistics Airport Authority and the Victorville Water District, since City Council serves as the governing board for these component units.

### II. Policy Objectives

The Policy objectives are as follows:

- To help maintain the financial stability of the City by encouraging sound decision- making so that its long-term financing commitments are affordable and do not create undue risk or burden.
- To protect the City's credit rating and minimize the City's borrowing costs.
- To meet the requirements of state and federal law and regulations, including federal requirements regarding disclosure and compliance with tax-exemption rules.
- To incorporate best practices into the City's issuance and administration of its indebtedness.
- Ensure that the City's debt is consistent with the City's planning goals and objectives and capital improvement program or budget, as applicable.

### III. Scope of City Indebtedness

This Policy governs the issuance and management of all debt and lease financing activity by the City; inclusive of bonds issued through the Southern California Logistics Airport Authority, the Victorville Water District, the Victorville Successor Agency, and the Financing Authority. The Financing Authority is a joint powers authority of the City created to facilitate financing. The following are the types of debt that the City may issue.

- **Voter-approved indebtedness:** The City can issue general obligation (GO) bonds with approval of 2/3 of those voting at an election. Such bonds would be repaid out of a supplemental property tax, levied based on the value of property. General obligation bonds are an appropriate method of financing capital improvements of City-wide benefit, if 2/3 voter approval could be obtained. The City could also seek 2/3 approval of a parcel or other special taxes levied on a basis other than assessed valuation that could be used to secure or otherwise pay debt service on bonds.

- **General Fund lease obligations:** Long-term obligations secured by lease payments from a city's general fund do not require voter-approval under California law (the State Constitutional Debt Limit, which imposes certain requirements for debt specifically secured by property taxes). Lease obligations can take the form of publicly offered lease revenue bonds or certificates of participation or may take the form of financing leases that are privately placed with a bank. There is no legal limitation on the amount of such obligations a city can incur, although there are practical budget limitations of debt affordability. In addition, the structure of the obligation is subject to various conditions articulated in the case law that established this exception to voter approval. In addition, a city can incur other long-term obligations payable from general revenues that do not involve leases, including judgment obligation bonds and pension obligations..
- **Cash flow borrowings:** The City can issue tax and revenue anticipation notes that are repaid out of current year revenues to smooth any temporary cash shortages.
- **Enterprise revenue debt:** Debt can be secured by a City's enterprise or special funds in the form of revenue bonds, certificates of participation, or State loans. The market requires that, if enterprise revenue debt is issued, the City maintain rates sufficient to pay operations and maintenance of the system and provide a measure of coverage of debt service.
- **Assessment and Mello-Roos special tax bonds:** The City can form assessment districts, with majority property-owner approval, to finance projects that provide special benefit to the property. Similarly, property-owners of undeveloped land can approve Mello-Roos special taxes or assessments to finance public improvements, generally referred to as land secured debt. At the time any such debt is considered, specific land-secured policies should be drafted for Council consideration, consistent with State law (for Mello-Roos districts) and best practices.
- **Tax allocation bonds:** The City's former redevelopment agency had the power to issue bonds secured by the property tax-increment generated by its project areas, as well as enter into other debt-like obligations. With the dissolution of redevelopment, no such new obligations can be incurred. The City, acting as the redevelopment agency's successor agency, can refund outstanding debt for savings. Enhanced Infrastructure Financing Districts (EIFD's) provide for tax increment financing but only utilizes the share of the general property tax of the sponsoring agency or agencies.
- **Conduit debt:** Cities can also issue tax-exempt bonds to lend the proceeds to certain non-profit corporations and other activities. The City has not issued such debt in the past and there are various statewide authorities to facilitate such projects for borrowers that cannot or choose not to directly issue their own tax-exempt debt.

#### IV. Debt Management Responsibility

The City Treasurer is appointed as the City official responsible for the following:

- Debt issuance and management, recognizing that assigned staff may be charged with the day-to-day responsibilities.
- Working with the City Manager and other staff deemed appropriate in formulating the City's debt management plans, executing these plans, and ensuring the appropriate debt management.

- Keeping the City Council informed of City's debt-related activities through informational reports, briefings, or workshops.

## **V. Uses and Limits on Indebtedness**

Debt provides a tool for financing capital projects that are too large to accommodate as part of the annual budget, to share the cost of major improvements between current and future taxpayers or ratepayers and/or to accelerate the delivery of a project compared to funding on a pay-as-you-go-basis. On the other hand, debt service represents a fixed cost that will compete with other expenditures in the City's budget and cannot be deferred in any given year. In order to achieve the proper balance in its use of debt, the City will follow the following policy goals:

- Except to alleviate cash-flow timing issues within a fiscal year, the City will not use debt to finance operating expenses. The City may consider use of debt in the event of an extraordinary expense, such as the financing of a major judgment, or to restructure existing liabilities, such as with pension obligation bonds.
- The City will plan for capital improvements and maintenance as part of its budgeting process, seeking to set funds aside in advance of need so that most capital projects can be financed on a "pay-as-you-go" basis. Debt financing will be reserved for extraordinary capital expenditures.

The City believes that prudent amounts of debt can be an equitable and cost-effective means of financing major infrastructure and capital project needs of the City. The City will evaluate the benefit and risks of each proposed issue of new debt on a case by case basis, considering such factors as the City's overall fiscal health, the potential impact of increased debt service on then current service levels and other long-term considerations such as funding requirements for pensions and other post-employment retirement benefits. In general, debt may be considered to finance such projects if it meets the following minimum criteria:

- It meets the City's goal of distributing the payments for the asset over its useful life so that benefits more closely match costs for both current and future residents.
- The need for the project is compelling in terms of on-going cost savings or the needs for public safety or services, and the size of the project makes funding out of existing resources or near-term revenues impractical.
  - The City shall not incur obligations paid out of the General Fund where annual debt service exceeds six percent (6%) of annual (fiscal year) General Fund appropriations. Debt that is backed by the General Fund but expected to be paid out of other revenues may be deducted from this calculation, provided that the City has a demonstrated track record of collecting such revenues, net revenues after operating expenses provide reasonable coverage over debt service and the City expects that the available revenues will be at least sufficient to cover debt service for the remaining life of the obligations. This calculation of lease debt burden will be contained in any staff report recommending the approval of any such new obligations.
- The City may consider indebtedness secured by its special revenue funds in those instances where large capital investment is required and the use of debt allows for a pattern of smooth rate increases over time. At the time of issuance of new debt, the City must be able to meet debt service coverage requirements based on rates which are in place and not subject to further approval by the City Council.

## **VI. Method of Sale**

Debt can be sold at a public offering through the sale of bonds, either through a competitive or negotiated sale, or through a private placement with a bank or other institution. The best method of sale depends on the type of security, credit factors, and market conditions. The basis for the recommendation for the method of sale will be included in any staff report recommending the approval of any such new obligations.

The City will consider privately placing its debt for small and/or short-term borrowings or in instances where difficult credit or disclosure considerations or other special circumstances so warrant.

## **VII. Interfund and Interagency Loans**

In lieu of issuing bonds or otherwise borrowing from third-parties, there will be situations that the most appropriate means for the City to borrow money will be through a loan from a well-capitalized City fund. Such Interfund and Interagency Loans can be seen as an alternative investment of temporarily surplus City funds, which normally would be invested at a short-term rate as part of the City's pooled investment program.

The procedure for establishing an Interfund or Interagency Loan is set forth in Council Policy No. CP-15-02. If the determination had been made to establish an interfund or interagency loan, the City Treasurer will report to the City Manager the need for the loan. The City Manager, upon accepting the report, will request the City Attorney to prepare the loan documents in the form of a Promissory Note. The document will contain the following information:

- The purpose for which the loan or advance is being made;
- The identification of both the lending and borrowing fund, or funds;
- The dollar amount of the loan or advances;
- The maturity date on which all principal together with all accrued and unpaid interest will be due and payable;
- The applicable interest rate;
- The financial plan for repayment;
- The borrowing fund's right to make full prepayment at any time without penalty.

The promissory note will be submitted to the council for approval.

## **VIII. Financing Professionals**

### **A. Bond and Disclosure Counsel**

The City Treasurer, in consultation with the City Manager, will be responsible for recommending bond counsel, based on prior experience, recommendations or a request for proposal process, as he or she deems appropriate. The City Treasurer will also determine whether to select another law firm to provide the services of disclosure counsel to draft the City's official statement, or to assign such duties to bond counsel.

For all public sales of debt, the City will retain the services of disclosure counsel to prepare the official statement, which can be the same firm as bond counsel.

**B. Municipal Advisor**

The City Treasurer will recommend a municipal advisor to assist in evaluating financing options, structuring of its debt offerings, making recommendations as to the method of sale, conducting competitive bond sales, and assisting with bringing negotiated bond sales to market, including making recommendations to the City on proposed interest rates, prices and yields in light of market conditions and the characteristics of the bonds.

**C. Underwriter**

If the City elects to sell its debt through a competitive sale, the underwriter will be selected based on the best bid. At those times that the City decides to issue its debt through a negotiated sale, it will select one or more underwriters. Unless there are special circumstances, the underwriter of a negotiated sale will be chosen through a request for proposals.

**D. Trustee**

The City Treasurer shall have the discretion to select a commercial banking firm as trustee in connection with any given financing.

Other financial professionals or firms may be required and/or advantageous depending on the particular bond issue. For example, a verification agent is typically necessary for refundings, while tax increment financings commonly have an independent fiscal consultant's report.

**IX. Structuring Debt Financing**

**A. Term and Structure**

Long-term debt financing of capital projects will be amortized over a period no longer than the useful life of the assets being financed, and in no event should exceed thirty years.

Debt service will generally be structured to be level over the length of the bonds. Alternate debt structures may be used to wrap new debt around existing debt to create overall level debt service or to achieve other financial planning goals appropriate to the specific project.

The dates for which debt service is scheduled (typically semi-annually) will take into account the cash flows of the revenues that will service such debt.

**B. Debt Service Reserve Fund**

To the extent required by the market or where the additional costs is less than the debt service savings afforded, the City may fund a debt service fund out of bond proceeds no greater than the amount allowed under federal tax law.

**C. Capitalized Interest**

Funding interest payments out of bond proceeds during construction is required for a lease revenue obligation where the leased asset is the project being financed. The City will consider

leasing an existing municipal asset (an "asset transfer") in order to reduce or eliminate the need to capitalized interest. In other occasions, the City will consider capitalizing interest when it is appropriate to begin the payment of debt service after project completion.

#### **D. Variable Rate Debt**

To maintain a predictable debt service burden, the City will give preference to debt that carries a fixed interest rate. It may be appropriate to issue variable rate debt to diversify the City's debt portfolio, provide greater call flexibility or improve the match of variable- rate assets (investments in the City's treasury) to liabilities. The City's cost for administering variable rate debt, including the renewal or replacement of bank facilities, should be considered when comparing fixed and variable rate debt.

#### **E. Disclosure**

For all public sales of debt, the City will retain the services of disclosure counsel (who may also serve as bond counsel) to prepare the official statement to be used in connection with the offering and sale of debt. Appropriate staff will be asked to review this document to ensure that it is accurate and does not fail to include information that such staff and officials think might be material to an investor. The City will make every effort to ensure the fullest disclosure possible in the City's disclosure documents, including, as appropriate, seeking staff training in disclosure matters. A Preliminary Official Statement will be released to the market only after the completion of the "due diligence" meetings with appropriate staff and approval in form by the Council. Use of disclosure counsel may also be appropriate in private placements in some circumstances.

#### **F. Credit Ratings**

The City Treasurer, in consultation with the Municipal Advisor and other members of the financing team, will evaluate and make recommendations regarding the number of credit ratings to seek on any given bond issue. The City will work to maintain its ratings and to increase ratings when the opportunity to do so exists; the City Treasurer will periodically communicate with the agencies rating the City's debt so that they will remain well-informed.

#### **G. Credit Enhancement**

The City will consider the use of credit enhancements, such as bond insurance, on a case-by-case basis. The cost-benefit of insurance will be evaluated through the final maturity and, in the case of premium bonds, through the first optional call date, recognizing that municipal bonds are commonly refunded prior to maturity. The City will consider the use of a surety policy in lieu of a cash funded reserve, but in doing so will consider estimated earnings on a cash funded reserve and the cost of replacing that surety at the time of a potential refunding, if applicable.

#### **H. Derivatives**

The City will not use interest rate swaps in connection with its debt program unless a separate swap policy is prepared and approved by Council. The City may use derivative- like investment products to invest bond funds, but only upon staffs analysis of the investment as part of the staff report transmitting the financing and specific approval as part of the Council action.

## **X. Refunding Bonds**

In order to provide for the potential for refunding its bonds in the future, and absent compelling reasons to the contrary, the City will structure its bond issues with an optional call no longer than ten years from the date of issuance. Such compelling reasons to deviate from this policy would be a taxable bond issue, where the additional interest cost required for an optional call may outweigh the likely benefits. When structuring its bond issues, the City will take into account the coupon structure of its debt (i.e., discount bonds or premium bonds that mature after the call date) and its impact on its option to execute a refunding.

The City will periodically review its outstanding debt portfolio to identify opportunities to achieve net economic benefits from refunding its bonds. Recognizing that the City's ability to refund its debt is limited, because of federal tax law constraints on advance refundings and the market practice of making most fixed-rate bond issues non-callable for their first ten years, the City will seek to deploy its refunding options prudently. At a minimum, the City will seek to achieve net present value ("NPV") savings equal to at least three percent (3%) of the par amount of the bonds that are refunded. A higher threshold may be warranted if the City doesn't receive 100% of the savings benefit (such as when refunding tax allocation bonds) and/or if it must incur significant non-contingent costs relative to the potential savings.

When it is practical to consider a partial refunding, the analysis will be performed on a maturity-by-maturity basis. Other factors that may be considered are the length of the period before the call date (the longer the period the higher the savings target should be), the length of time after the call date (savings are more difficult to realize for a short maturity, and thus the target could be lower), and any other factors that assist in considering the value of a call option.

The City may also consider a refunding for a non-economic purpose, including the retirement of an indenture for more desirable covenants, a change in tax status, or to change the type of debt instrument.

## **XI. Debt Administration**

The City Treasurer and his or her staff shall be responsible for ensuring that the City's debt is administered in accordance with its terms, federal and State law and regulations, and best industry practices.

### **A. Tax-Exemption**

Tax-exempt bond issues are subject to various IRS rules and regulations regarding the use of bond proceeds. The City will take actions as necessary to ensure compliance with tax law requirements applicable to each of the City's tax-exempt issues, and will periodically review and will comply with the specific post issuance compliance procedures identified in the tax documents for its tax-exempt financings.

- The City will ensure, when issuing its debt, that it has reasonable expectations that it will spend the proceeds within three years, unless an exception to this requirement has been identified and documented in the financings tax certificate.
- The City will make sure that the use of facilities financed with tax-exempt bonds are not used for ineligible private activities, and will consult with bond counsel whenever it identifies a change in use, enters into a long-term contract involving the project, or otherwise undertakes an action that could change the tax-exempt status of its bonds.
- The City will retain an arbitrage rebate consultant to assist in calculating any earnings

on bond proceeds in excess of the rate on its bonds, to calculate whether arbitrage should be rebated to the Federal Government, and to make timely and accurate return filings.

## **B. Continuing Disclosure**

Under the Securities and Exchange Commission Rule 15c2-12, the City is required on an ongoing basis to provide certain financial and operating data to those who own or are interested in purchasing the City's bonds and other securities. The City has entered into various continuing disclosure agreements and will be required to enter into them with new bond issues. The agreements require the filing of certain annual reports and certain notices of material events. The City Treasurer will be responsible for compiling and filing such reports and any event notices, which includes monitoring the date by which the reports must be filed, the contents that need to be included event notices that must be filed, and when event notices are required to be filed. The City Treasurer may retain a consultant to assist in meeting this obligation.

The City Treasurer, directly or through its disclosure consultant, will be responsible for the timely filing with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") web site of the City's Comprehensive Annual Financial Report and any other required reports; the filing of notices of the material events set out in the Continuing Disclosure Certificates; and the filing of any voluntary disclosures deemed material.

## **C. Investment of Bond Proceeds**

Investments of bond proceeds shall generally be consistent with the City's Investment Policy as modified from time to time, and with the requirements contained in the governing bond documents. Whenever investment agreements are used in connection with a tax-exempt bond issue, the City will consult with legal counsel to ensure that these investments are consistent with the requirements of Federal tax law.

## **XII. Relationship of Debt to Capital Improvement Program and Budget**

The City is committed to long-term capital planning. The City may issue debt for the purposes stated in this Debt Management Policy and to implement policy decisions incorporated in the City's capital budget component of its annual budget. The City shall integrate its debt issuances with the goals of its capital improvement program by considering when projects are needed in furtherance of the City's public purposes in determining the timing of debt issuance.

The City shall seek to avoid the use of debt to fund recurring infrastructure and facilities improvements in circumstances when the sole purpose of such debt financing is to reduce annual budgetary expenditures.

## **XIII. Internal Control Procedures**

When reasonable, proceeds of debt will be held by a third-party trustee and the City will submit written requisitions for such proceeds. The City will submit a requisition only after obtaining the signature of the City Treasurer. In those cases where the proceeds of debt are not to be held by a third-party trustee, the City Treasurer shall be responsible for approving expenditures in the same manner as the approval for the expenditures for City revenues.

#### **XIV. Conclusion**

This Policy is intended to guide and regulate the City's issuance of debt. This policy should be reviewed and updated periodically to reflect changes in the market, the identification of other best practices, and to incorporate the City's own experience or changing circumstances.

While adherence to this Policy is generally required, it is recognized that changes in the capital markets, the City's needs and other unforeseen circumstances may from time to time produce situations that are not covered by the Policy or will require modifications or exceptions to best achieve policy goals. Any deviations from this policy that is recommended by staff should be highlighted in the staff report transmitting the resolution for approval of the financing.